

## APPENDIX A - PILLAR 3 REPORT 31 MARCH 2019

### 1. Pillar 3 Disclosure

Border to Coast Pensions Partnership Limited (the "Firm") is authorised and regulated by the Financial Conduct Authority (the "FCA").

The Firm was established in 2018 and is one of eight national Local Government pools set up to manage the assets of behalf of twelve Local Government Pension Scheme funds who are both the investors and shareholders.

The Firm is a full scope Alternative Investment Fund Manager ("AIFM") and categorised as a collective portfolio management investment firm by the FCA for capital purposes.

On 10th January 2019, the Firm also received permission for establishing, operating and winding up a collective investment scheme. These are unauthorised schemes used for the Border to Coast Alternatives capability.

The Firm currently reports on an unconsolidated basis. The Firm's Pillar 3 disclosure fulfils the Firm's obligation to disclose to market participants key pieces of information on the Firm's capital, risk exposures and risk assessment processes.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information. In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

### 2. Risk Management

The Firm's Board seeks to ensure that robust risk management and internal controls are delivered through the risk management framework, which forms an integral part of the management and Board processes and decision-making. This framework enables the Board to draw assurance that risks are being appropriately identified and managed within risk appetite, and that risks that may present significant financial loss or reputational damage are being minimised.

The Board agrees strategy, objectives and overall direction, and oversee and monitor risk-related management decision making. The Board

1. Sets the Firm's risk appetite, recognise that a clearly defined risk appetite supports balanced decision making, capital management and planning including proposition design, performance management and external reporting
2. Ensures senior management implements risk policies, delivers the business plan within risk appetites and manages the risk profile

3. Works with senior management to review strategies and policies for identifying managing, monitoring and mitigation actual and potential risks.

The Firm's governance structures for risk management are based on the industry standard "three lines of defence" model. Primary responsibility for operational controls and risk management lies with the investment and operational teams. A second line of defence is provided by the Company's independent Risk and Compliance function, which has a reporting line to the Audit and Risk Committee (ARC) Chair. The third line of defence is provided by Internal Audit, which also has a reporting line to the ARC Chair and provides process assurance. Additionally, independent External Audit provide annual review both on the financial affairs of the company and its related systems and controls.

The Firm's risk framework utilises the FCA defined categories of risk although it should be noted that the categories of residual risk, securitisation risk and risk of excessive leverage are not applicable to the enterprise itself and therefore are not currently applied. Appetite statements are set by the Board for each risk against which exposure is monitored and reported on a regular basis.

The key risks to which the Firm is exposed are summarised below:

**Business Risk:** the risk that the business model or strategy, proves inappropriate due to macro-economic, geopolitical. Industry, regulatory or other factors. This includes factors that mean the firm would be unable to carry out the business plan and achieve the desired strategy. This is managed by the Senior Management and the Board through appropriate governance arrangements in its decision making.

**Operational risk:** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This incorporates people risks, legal risk, outsourcing risk and systems failures including cybersecurity. This also includes regulatory risk and financial crime risk. key risk indicators help ascertain compliance against appetite such as for People risk. All operational controls are documented as part of process flow maps with confirmations made on a twice-yearly basis. Internal departments will review services provided by outsourced providers through receipt of MI, relationship meetings and oversight reviews.

**Counterparty risk:** the risk that the person or institution with whom we have entered into a contract who is a counterparty to the contract will default on the obligation and fail to fulfil their side of the contractual agreement. For the Firm this is particularly important to monitor due to the outsourced nature of our business model. Exposure is monitored on a day to day basis having initially established the credit worthiness of the organisations it decides to engage with. All material outsource service providers are subject to extensive due diligence as part of contracting. There is ongoing oversight by the relevant engaging team to ensure continued standard of service is obtained.

**Credit Risk:** the Firm is exposed to credit risk through its cash deposits, trade debtors and prepayments. The Firm holds all cash with banks with whom the Firm has strong, well-established relationships and which typically have a minimum

Moody's or S&P rating of investment grade. No assets are impaired or past due. The Firm uses the standardised approach to calculating credit risk exposures, i.e. 8% of the risk weighted credit exposure. Under this approach the Firm calculates its total credit risk to be £270k as summarised in the table below;

<b>Exposure class</b>	<b>Exposure value £'000</b>	<b>Risk weighting</b>	<b>Risk weighted exposure amount £'000</b>
Institutions	13,819	20%	2,764
Corporates	1,063	20%	213
Retail	12	75%	9
Other	395	100%	395
Total	15,289		3,381
Credit risk@ 8%			<b>270</b>

Other risks to which the Firm is exposed are summarised below:

**Market Risk:** the only source of market risk to the Firm are bank accounts held in foreign currencies resulting in foreign currency position risk. The Firm uses the general rule in BIPRU 7.5 for calculating market risk exposures, i.e. 8% of the open currency position. Under this approach the Firm calculates its foreign currency PRR and total market risk to be £1k

**Liquidity risk:** the Firm manages its liquidity within its designated treasury management arrangements and risk appetite ensuring that the exposure is balanced against operating requirements. Separate liquidity management takes place within the investment portfolios.

**Interest rate risk:** the Firm's exposure to interest rate risk is considered immaterial and therefore no detailed information has been reported.

**Equity positions:** the Firm is not exposed to any equity positions.

**Concentration risk** – this risk results from the organisation being both a new asset manager which is building up its service and product lines and the limited number of customers. The Firm has continuous customer engagement to manage this risk.

**Pension obligation risk** arises through the liability owed to its employees. This is formally reviewed on an annual basis using professional advice and appropriate changes agreed through either the Executive Committee or through the Remuneration Committee. The Firm has a guarantee structure in place from its 12 shareholders which is designed to protect it from the impact of adverse valuation movements in the defined benefit pension scheme liabilities and assets. This protects the Firm from emerging deficits by guaranteeing that all pension payments related to the scheme will be met by the shareholders and therefore the Firm is not exposed to this risk.

**Group risk** is not applicable at the reporting date.

### 3. Regulatory Capital

The Firm is a Private Limited Company and its capital arrangements are comprised of paid up share capital.

All of the Firm's capital resources are comprised of Tier 1 capital and that, aside from historical brought forward losses and intangible assets, no other deductions are required. As at 31 March 2019, the Firm's capital position is:

	<b>£'000</b>
Share capital	10,000
Intangible assets	(24)
Audited reserves	(86)
<b>Total capital resources</b>	<b>9,890</b>

The Pillar 1 capital requirement is the higher of:

1. the base capital requirement of €125,000;
2. the sum of market and credit risk requirements; and
3. the Fixed Overhead Requirement ("FOR").

In addition, the Firm, on account of its classification as a full-scope AIFM, is subject to a parallel "own funds" requirement as follows:

The higher of:

1. the funds under management requirement, subject to the minimum of €125,000; and
2. the own funds based on fixed overheads requirement;

plus, whichever is applicable of:

- (i) the professional negligence capital requirement; or
- (ii) the Pillar II capital requirement.

At 31 March 2019, the Firm's Pillar 1 was based on the Fixed Overhead Requirement plus the professional negligence capital requirement and totalled £3.76m which is well within the level of regulatory capital resources held.

Pillar 2 capital is calculated by the Firm as representing any additional capital to be maintained against any risks not adequately covered under the requirement in Pillar 1 as part of its ICAAP. The Firm's ICAAP assesses the adequacy of its internal capital to support current and future activities. This process includes an assessment of the specific risks to the Firm, the internal controls in place to mitigate those risks, and an assessment of whether additional capital mitigates those risks. The Firm also considers a wind down scenario to assess the capital required to cease regulated activities. The Firm's ICAAP is formally reviewed by the Executive Management annually before submission to the ARC and Board for approval but will be revised should there be any material changes to the Firm's business or risk profile. Having performed the ICAAP, the Firm has concluded that no additional capital is required in excess of its Pillar 1 capital requirement.

## 4. Remuneration

The Executive Committee is responsible for developing and managing the Group's business in accordance with the Strategic Business and Operational Plans. This includes developing a Remuneration Policy and framework for all employees, including Executive Directors and Code staff, which is agreed with the Remuneration and Nomination Committee, the Border to Coast Board and Shareholders (the twelve local authorities).

The Firm is subject to the AIFMD Remuneration Code ("the Code"), has applied proportionality and, pursuant to this application and where relevant, has dis-applied various provisions of the Code.

The Remuneration and Nomination Committee takes full account of the Firm's strategic objectives in setting remuneration policy and is mindful of its duties to its shareholders. Some matters are shareholder reserved matters. The Committee seeks to preserve shareholder value by ensuring the successful recruitment, retention and motivation of all senior employees throughout the Firm and particularly those covered by the Code.

Code staff are defined as those employees who perform a significant influencing function, a senior manager and/or risk taker whose professional activities could have a material impact on the Firm's risk profile. Remuneration is made up of fixed pay (i.e. salary and benefits) and no performance related variable or fixed pay is utilised. Fixed pay is reviewed annually based on market rates and job size. Employees' performance management assesses performance and contribution in order to reflect the success or failure of the employee in achieving agreed individual, team and organisational objectives thereby reflecting the overall contribution of the employee to the delivery of the strategic business plan.

There is a requirement for a remuneration statement to form part of the annual report of any Alternative Investment Fund ("AIF") to which the Firm acts as AIFM and which is either domiciled in the European Economic Area ("EEA") or marketed in the EEA.

No sign-on or severance payments were made to any staff during the period.

The Firm classified 23 individuals as Code Staff in 2018/19. The aggregate remuneration paid to the Firm's Code Staff during the financial year ending on 31st March 2019 was £2,288,229.